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### **Korean government compensates cattle farmers for losses due to the FTA**

**Report Categories:**

Country/Regional FTA's  
Livestock and Products

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**Report Highlights:**

The Ministry of Food, Agriculture and Rural Affairs (MAFRA) announced April 29, 2013 its decision to compensate Hanwoo beef cattle and calf farmers that suffered losses caused by the KORUS FTA. This marks the first time that such a compensation plan will be implemented since it was introduced in 2004 with the enactment of the Korea-Chile FTA. MAFRA will announce compensation amounts before December 2013.

## General Information:

The Ministry of Food, Agriculture and Rural Affairs (MAFRA) announced April 29, 2013 its decision to compensate Hanwoo beef cattle and calf farmers that suffered losses caused by the KORUS FTA. This marks the first time that such a compensation plan will be implemented since it was introduced in 2004 with the enactment of the Korea-Chile FTA. The direct payment for compensation of losses caused by the FTA will be paid within 2013 after receipt of applications from farmers. Additionally, the farmers are allowed to receive support when they stop farming. Hanwoo cattle and calves are the only commodities eligible to receive support out of a total of 65 commodities reviewed by the Korea Rural Economic Institute.

In order for a sector to receive direct payment as compensation for losses caused by the FTA, it must meet the following criteria (direct payment will be provided only when all three criteria are met):

- Total imports must exceed the standard total imports (standard total imports is the average imports of 3 years out of the immediate previous 5 years (2007~2011), excluding the highest and lowest year).
- Total imports of beef were 15.6 percent higher than the standard total year (207,000 MT vs. 240,000 MT).
- Imports from the country where an FTA has been established must exceed the standard import amount (the standard total imports is the average imports of 3 years out of the immediate previous 5 years (2007~2011), excluding the highest and lowest year, multiplied by a trigger index for import damage).
- Imports from the United States had increased 53.6 percent over the standard annual import (55,000 MT vs. 84,000 MT).
- The average cost must be lower than the standard price (90 percent of the average price of 3 years out of the immediate previous 5 years (2007~2011), excluding the highest and lowest year).
- The domestic price for Hanwoo beef cattle was 1.3 percent under the standard price (4,725,000 won vs. 4,664,000 won). Domestic price for Hanwoo calves was 24.6 percent under the standard price (2,011,000 won vs. 1,517,000 won).
- Basis for selecting beef as being eligible to receive the direct payment

FTA	Total Imports (MT)			Imports from U.S. A. (MT)			Average Price for Live Animal			
	Criteria	2012	Meets criteria or not	Criteria	2012	Meets criteria or not	Animal	Standard price 2/	2012 price	Meets criteria or not
KORUS	207,408	239,780	Yes	54,555	83,813	Yes	Hanwoo	4,725	4,664	Yes
							Calf (Hanwoo)	2,011	1,517	Yes
							Dairy steer	2,512	3,048	No

1. Price: The price for Hanwoo and dairy steer is 1,000 won for a cow weighing 600 kg. Hanwoo calf price is 1,000 won per head for calves that are 6-7 months old.
2. The standard price is 90 percent of the average 3 year price.

### 3. Source; NAQS, NACF

- In January 2012 the government lowered eligibility criteria for receiving FTA-related payments. Current prices must now be 10 percent lower than the three-year average, compared to 85 percent (revised on July 21, 2011) and 80 percent originally.

The support provided reflects the impact on the price drop caused directly by increased imports due to the FTA, while excluding the price impact caused by increased domestic supply, decrease in demand, etc.

- The committee calculated that the impact coming from imports was 24.4 percent for Hanwoo cattle and 12.9 percent for Hanwoo calves. This will be used when calculating the amount of direct payment.
- Direct payment compensation = (Total number of animals sold) X [(Standard price) – (Average 2012 price)] X 0.9 X (Coordination Factor)
- Coordination factor = [(Amount of possible support) / (Amount of requested support)] X (Ratio of impact coming from imports)

In addition, the committee decided to add Hanwoo cattle (including Hanwoo calves) as eligible to receive support when they stop farming.

- Under current law, commodities selected for receiving direct payment for compensation for losses caused by the FTA may also receive support when they stop farming the commodity. In this case, such support will be provided only when the farmer decides to completely stop raising any kind of Hanwoo cattle.
- The amount of support to be provided will be reflected when the Ministry establishes the annual support plan, taking into consideration the appropriate level of Hanwoo inventory, total budget, priority, etc.

After undergoing reviews and assessment by the regional government, the Ministry plans to provide the direct payment for the losses caused by FTA as well as support for no longer raising Hanwoo cattle by December 2013.

- However, as the amount of direct payment for the losses caused by FTA cannot exceed the total Aggregated Measure of Support (AMS) as set under the WTO Agricultural Agreement, the final amount of support per animal and total support amount will be decided sometime in October after undergoing deliberation by the committee.

The Ministry explained that as this is the first year of direct payment for losses caused by the FTA, they will continue to make improvements to the direct payment program based on experience gathered this year, and will continue to provide supplementary measures so that damage to the farmers can be minimized.